

CITY OF ALTA VISTA  
WABAUNSEE COUNTY, KANSAS  
INDEPENDENT AUDITORS' REPORT AND  
STATUTORY BASIS FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

ALDRICH AND COMPANY LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
COUNCIL GROVE, KANSAS 66846

City of Alta Vista  
Wabaunsee County, Kansas

STATUTORY BASIS FINANCIAL STATEMENTS  
Year Ended December 31, 2011

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1
STATEMENT 1	
Summary of Cash Receipts, Expenditures, and Unencumbered Cash	2
STATEMENT 2	
Summary of Expenditures - Actual and Budget	3
STATEMENT 3	
Statement of Cash Receipts and Expenditures	
General Fund	4-6
Special Revenue Funds	
Special Park Fund	7
Special Highway Fund	8
Equipment Reserve	9
Capital Improvements	10
Bond and Interest Fund	11
Capital Projects Fund	
Water System Improvements	12
Proprietary Funds	
Gas Utility	13
Sewer Utility	14
Sewer Reserve	15
Water Utility	16
Refuse Utility	17
Notes to the Financial Statements	18-25

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	26
Notes to the Schedule of Expenditures of Federal Awards	27
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance With Government Auditing Standards	28
Report on Compliance with Requirements That Could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	29-30
Schedule of Findings and Questioned Costs	31-32

Independent Auditors' Report

Mayor and City Council  
City of Alta Vista, Kansas

We have audited the accompanying financial statements of the City of Alta Vista, Kansas, as of and for the year ended December 31, 2011 as listed in the table of contents. These statutory basis financial statements are the responsibility of City of Alta Vista, Kansas, management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2010 financial statements and, in our report dated October 14, 2011, we expressed an unqualified opinion on the respective financial statements on the statutory basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the guidance in the Kansas Municipal Audit Guide, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the City of Alta Vista, Kansas, prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of differences between these regulatory practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Alta Vista, Kansas, as of December 31, 2011, the changes in its financial position, or where applicable, its cash flows for the year then ended.

Also, in our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Alta Vista, Kansas, as of December 31, 2011, and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2012, on our consideration of the City of Alta Vista, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion of the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Aldrich & Company, LLC*

Aldrich & Company LLC  
Certified Public Accountants  
August 30, 2012

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds						
General	\$ 60,790	\$ 150,346	\$ 132,141	\$ 78,995	\$ 14,624	\$ 93,619
Special Revenue						
Special parks	1,586	222	0	1,808	0	1,808
Special highway	97,304	11,222	36,288	72,238	0	72,238
Equipment reserve	52,229	0	0	52,229	0	52,229
Capital improvements	103,374	0	90,453	12,921	0	12,921
Debt Service						
Bond and interest	13,074	0	0	13,074	0	13,074
Capital Projects Funds						
Water system improvements	0	927,298	765,177	162,121	0	162,121
Proprietary Type Funds						
Gas utility	649,953	815	218,664	432,104	0	432,104
Sewer utility	6,855	97,257	98,762	5,350	1,716	7,066
Sewer reserve	27,000	3,000	0	30,000	0	30,000
Water utility	25,119	105,383	103,774	26,728	9,080	35,808
Refuse utility	5,352	28,051	28,713	4,690	2,285	6,975
Total Reporting Entity	<u>\$ 1,042,636</u>	<u>\$ 1,323,594</u>	<u>\$ 1,473,972</u>	<u>\$ 892,258</u>	<u>\$ 27,705</u>	<u>\$ 919,963</u>

Petty Cash	\$ 25
Alta Vista State Bank	
Regular checking	486,553
Grant account	208,385
Certificates of deposit	225,000
Total reporting entity	<u>\$ 919,963</u>

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 2

Summary of Expenditures - Actual and Budget  
(Budgeted Funds Only)  
For the Year Ended December 31, 2011

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
Governmental Type Funds:					
General	\$ 189,915	\$ 0	\$ 189,915	\$ 132,141	\$ 57,774
Special Revenue					
Special park	836	0	836	0	836
Special highway	108,689		108,689	36,288	72,401
Debt Service					
Bond and interest	13,078	0	13,078	0	13,078
Proprietary Type Funds					
Gas utility	225,664	0	225,664	218,664	7,000
Sewer utility	99,798	0	99,798	98,762	1,036
Water utility	135,300	0	135,300	103,774	31,526
Refuse utility	29,000	0	29,000	28,713	287

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-1

GENERAL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
	Actual	Actual	Budget	
Cash Receipts				
Taxes				
Wabaunsee County	\$ 102,702	\$ 101,403	\$ 104,334	\$ (2,931)
Liquor tax	0	0	0	0
Franchise taxes	23,251	22,758	14,300	8,458
Total Taxes	<u>125,953</u>	<u>124,161</u>	<u>118,634</u>	<u>5,527</u>
Intergovernmental				
FEMA & Kansas Emergency Prep	0	0	0	0
Sales tax	15,911	17,315	15,700	1,615
Total Intergovernmental	<u>15,911</u>	<u>17,315</u>	<u>15,700</u>	<u>1,615</u>
Licenses and Permits				
Licenses, Permits, and Fines	<u>2,565</u>	<u>1,449</u>	<u>2,000</u>	<u>(551)</u>
Use of Money and Property				
Interest on deposits	<u>3,823</u>	<u>2,324</u>	<u>1,200</u>	<u>1,124</u>
Miscellaneous Revenue				
Other	<u>13,067</u>	<u>5,097</u>	<u>1,000</u>	<u>4,097</u>
Operating Transfers				
Gas utility	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts	<u>\$ 161,319</u>	<u>\$ 150,346</u>	<u>\$ 138,534</u>	<u>\$ 11,812</u>

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-1

GENERAL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Expenditures				
General				
Personal	\$ 22,392	\$ 23,799	\$ 23,000	\$ (799)
Contractual	15,002	23,016	10,115	(12,901)
Commodities	4,931	24,367	20,000	(4,367)
Capital outlay	0	0	1,000	1,000
Total General	42,325	71,182	54,115	(17,067)
Fire Department				
Personal	0	0	1,100	1,100
Contractual	3,934	4,628	5,100	472
Commodities	4,148	9,946	4,500	(5,446)
Capital outlay	0	0	5,000	5,000
Total Fire Department	8,082	14,574	15,700	1,126
Public Safety				
Personal	0	0	1,000	1,000
Contractual	10,051	10,254	15,100	4,846
Commodities	14,682	155	1,000	845
Capital outlay	0	0	1,000	1,000
Total Public Safety	24,733	10,409	18,100	7,691
Parks Department				
Personal	0	0	1,000	1,000
Contractual	1,522	1,851	5,000	3,149
Commodities	404	404	1,000	596
Capital outlay	0	0	1,000	1,000
Total Parks Department	1,926	2,255	8,000	5,745
Street Department				
Personal	17,165	14,770	12,000	(2,770)
Contractual	12,807	8,484	10,000	1,516
Commodities	12,272	10,467	40,000	29,533
Capital outlay	0	0	0	0
Adjustment for qualifying budget credits	0	0	0	0
Total Street Department	42,244	33,721	62,000	28,279
Operating transfers	60,000	0	32,000	32,000
 Total Expenditures	 \$ 179,310	 \$ 132,141	 \$ 189,915	 \$ 57,774

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-1

GENERAL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Total Cash Receipts				
Carried Forward	\$ 161,319	\$ 150,346	\$ 138,534	\$ 11,812
Total Expenditures				
Carried Forward	<u>179,310</u>	<u>132,141</u>	<u>189,915</u>	<u>57,774</u>
Receipts Over (Under) Expenditures	(17,991)	18,205	<u>\$ (51,381)</u>	<u>\$ 69,586</u>
Unencumbered Cash Balance, January 1	<u>78,781</u>	<u>60,790</u>		
Unencumbered Cash Balance, December 31	<u>\$ 60,790</u>	<u>\$ 78,995</u>		

The notes to the financial statements are an integral part of this statement.



The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-2

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

SPECIAL PARKS FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Liquor tax	\$ 0	\$ 0	\$ 0	\$ 0
Other	750	222	0	222
Total Cash Receipts	750	222	0	222
Expenditures				
Park expenditures	0	0	836	836
Adjustment for qualifying budget credits	0	0	0	0
Total Expenditures	0	0	836	836
Receipts Over (Under) Expenditures	750	222	\$ (836)	\$ 1,058
Unencumbered Cash Balance, January 1	836	1,586		
Unencumbered Cash Balance, December 31	\$ 1,586	\$ 1,808		

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-3

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

SPECIAL HIGHWAY FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State of Kansas	\$ 11,225	\$ 11,222	\$ 11,520	\$ (298)
Expenditures				
Street repair & maintenance	<u>0</u>	<u>36,288</u>	<u>108,689</u>	<u>72,401</u>
Receipts Over (Under) Expenditures	11,225	(25,066)	<u>\$ (97,169)</u>	<u>\$ 72,103</u>
Unencumbered Cash Balance, January 1	<u>86,079</u>	<u>97,304</u>		
Unencumbered Cash Balance, December 31	<u>\$ 97,304</u>	<u>\$ 72,238</u>		

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-4

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

EQUIPMENT RESERVE

	<u>2010</u>	<u>2011</u>
Cash Receipts		
Transfer from general	\$ 60,000	\$ 0
Other receipts	<u>1,151</u>	<u>0</u>
Total Cash Receipts	61,151	0
 Expenditures		
Equipment	<u>71,000</u>	<u>0</u>
 Receipts Over (Under) Expenditures	(9,849)	0
 Unencumbered Cash Balance, January 1	<u>62,078</u>	<u>52,229</u>
 Unencumbered Cash Balance, December 31	<u>\$ 52,229</u>	<u>\$ 52,229</u>

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-5

SPECIAL REVENUE FUND  
Statement of Cash Receipts and Expenditures  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

CAPITAL IMPROVEMENT

	<u>2010</u>	<u>2011</u>
Cash Receipts		
Transfer from general	\$ 0	\$ 0
Expenditures		
Capital improvements	<u>0</u>	<u>90,453</u>
Receipts Over (Under) Expenditures	0	(90,453)
Unencumbered Cash Balance, January 1	<u>103,374</u>	<u>103,374</u>
Unencumbered Cash Balance, December 31	<u>\$ 103,374</u>	<u>\$ 12,921</u>

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-6

DEBT SERVICE  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

BOND AND INTEREST

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Wabaunsee County	\$ 0	\$ 0	\$ 0	\$ 0
Expenditures				
Temporary notes				
Principal	0	0	13,078	13,078
Interest	0	0	0	0
Cash basis reserve	0	0	0	0
Total Expenditures	0	0	13,078	13,078
Receipts Over (Under) Expenditures	0	0	<u>\$ (13,078)</u>	<u>\$ 13,078</u>
Unencumbered Cash Balance, January 1	<u>13,074</u>	<u>13,074</u>		
Unencumbered Cash Balance, December 31	<u>\$ 13,074</u>	<u>\$ 13,074</u>		

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-7

CAPITAL PROJECTS FUND  
Statement of Cash Receipts and Expenditures  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

WATER SYSTEM PROJECT

	<u>2010</u>	<u>2011</u>
Cash Receipts		
CDBG grant	\$ 0	\$ 377,634
USDA loan proceeds	0	359,000
Transfer in	<u>0</u>	<u>190,664</u>
Total Cash Receipts	0	927,298
Expenditures		
Water system improvements	<u>0</u>	<u>765,177</u>
Receipts Over (Under) Expenditures	0	162,121
Unencumbered Cash Balance, January 1	<u>0</u>	<u>0</u>
Unencumbered Cash Balance, December 31	<u>\$ 0</u>	<u>\$ 162,121</u>

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-8

PROPRIETARY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

GAS UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 0	\$ 815	\$ 800	\$ 15
Interest	313	0	0	0
Sale of system	0	0	0	0
Other receipts	0	0	0	0
Penalties and connection fees	0	0	0	0
Total Cash Receipts	313	815	800	15
Expenditures				
Personal services	0	0	0	0
Contractual services	351	0	0	0
Commodities	0	0	0	0
Refunds	2,385	0	0	0
Sales tax	0	0	0	0
Transfer out	0	218,664	225,664	7,000
Total Expenditures	2,736	218,664	225,664	7,000
Receipts Over (Under) Expenditures	(2,423)	(217,849)	<u>\$ (224,864)</u>	<u>\$ 7,015</u>
Unencumbered Cash Balance, January 1	652,376	649,953		
Unencumbered Cash Balance, December 31	<u>\$ 649,953</u>	<u>\$ 432,104</u>		

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-9

PROPRIETARY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

SEWER UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 73,411	\$ 69,257	\$ 69,000	\$ 257
Transfers in	0	28,000	35,000	(7,000)
Total Cash Receipts	73,411	97,257	104,000	(6,743)
Expenditures				
Personal services	14,668	12,740	13,200	460
Contractual services	11,583	16,301	17,500	1,199
Commodities	12,492	16,623	16,000	(623)
Capital outlay	0	0	0	0
Transfer to sewer reserve	3,000	3,000	3,000	0
Principal & interest	50,098	50,098	50,098	0
Total Expenditures	91,841	98,762	99,798	1,036
Receipts over (under) Expenditures	(18,430)	(1,505)	\$ 4,202	\$ (5,707)
Unencumbered Cash Balance, January 1	25,285	6,855		
Unencumbered Cash Balance, December 31	\$ 6,855	\$ 5,350		

The notes to the financial statements are an integral part of this statement.



The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-10

PROPRIETARY FUND  
Statement of Cash Receipts and Expenditures  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

SEWER RESERVE

	<u>2010</u>	<u>2011</u>
Cash Receipts		
Transfer from sewer utility	\$ 3,000	\$ 3,000
Expenditures		
Sewer maintenance	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	3,000	3,000
Unencumbered Cash Balance, January 1	<u>24,000</u>	<u>27,000</u>
Unencumbered Cash Balance, December 31	<u>\$ 27,000</u>	<u>\$ 30,000</u>

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-11

PROPRIETARY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

WATER UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 103,584	\$ 97,912	\$ 115,000	\$ (17,088)
Other	8,324	7,471	0	7,471
Total Cash Receipts	111,908	105,383	115,000	(9,617)
Expenditures				
Personal services	25,521	29,997	23,000	(6,997)
Commodities	6,135	11,150	10,000	(1,150)
Water purchased	31,804	32,070	42,300	10,230
Contractual services	27,252	30,557	60,000	29,443
Temporary notes paid	0	0	0	0
Capital outlay	0	0	0	0
Total Expenditures	90,712	103,774	135,300	31,526
Receipts Over (Under) Expenditures	21,196	1,609	<u>\$ (20,300)</u>	<u>\$ 21,909</u>
Unencumbered Cash Balance, January 1	<u>3,923</u>	<u>25,119</u>		
Unencumbered Cash Balance, December 31	<u>\$ 25,119</u>	<u>\$ 26,728</u>		

The notes to the financial statements are an integral part of this statement.

The City of Alta Vista  
Wabaunsee County, Kansas

Statement 3-12

PROPRIETARY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
With Comparative Actual Totals for the Year Ended December 31, 2010

REFUSE UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 27,509	\$ 28,051	\$ 30,000	\$ (1,949)
Expenditures				
Personal services	741	384	1,000	616
Contractual services	27,131	28,329	28,000	(329)
Total Expenditures	27,872	28,713	29,000	287
Receipts Over (Under) Expenditures	(363)	(662)	\$ 1,000	\$ (1,662)
Unencumbered Cash Balance, January 1	5,715	5,352		
Unencumbered Cash Balance, December 31	\$ 5,352	\$ 4,690		

The notes to the financial statements are an integral part of this statement.

City of Alta Vista  
Wabaunsee County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Alta Vista is a governmental entity and operates under a Mayor-Council form of Government. The City provides the following services: public safety (police and fire), streets, sanitation, water, recreation, public improvements, planning and zoning and general administrative services.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The basic--but not the only--criterion for including a potential component unit within the reporting entity is financial accountability. The most significant manifestation of the criterion is financial dependence. Other manifestations of the criteria include but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Using this criterion, no component units were identified as part of the reporting entity of the City.

Fund Accounting

The accounts of the City are organized and operated on the basis of funds, which are used to record the City's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and City Ordinances. The following types of funds comprise the financial activities of the City.

Governmental Funds:

General Fund -- The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds -- Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund -- Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds -- Funds used to account for financial resources for the acquisition or construction of major capital facilities of the City.

Proprietary Funds:

Enterprise Funds -- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City of Alta Vista has four enterprise funds: gas, sewer, water and refuse.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund that the transfer is made.

The City has approved a resolution waiving the requirement for application of generally accepted accounting principles, which allows the City to revert of the statutory basis of accounting under K.S.A. 75-1120a(c).

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense; liabilities such as deferred revenue and matured principal and interest payable; and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods sold and services received during the year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

Reimbursements

The city records reimbursable expenditures in the fund that makes the disbursement and records the reimbursement as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

NOTE 2 - BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held,

City of Alta Vista  
Wabaunsee County, Kansas

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 2 - BUDGETARY INFORMATION (CONT)

and the governing body may amend the budget at that time. The gas and sewer funds were amended in 2011 increasing expenditure authority from \$10,000 and \$92,298 to \$225,664 and \$99,798 respectively.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, fiduciary funds, permanent funds, and the following special revenue funds: equipment reserve, capital improvement, and sewer reserve.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 3 - CASH AND DEPOSITS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The city has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S. A. 9-1402 and 9-1405.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The city has no designated peak periods. All deposits were legally secured at December 31, 2011.

The City maintains a cash pool that is available for use by all funds. At year-end, the carrying amount of the city's deposits was \$919,938. The bank balance was \$964,114. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by FDIC insurance, \$714,114 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the city's name. The city held no other investments at December 31, 2011.

City of Alta Vista  
Wabaunsee County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 4 - PROPERTY TAXES

The City certifies its' budget to the county clerk annually. Using this certified budget and those of other political subdivisions within the county, the county clerk spreads the annual assessment onto the tax rolls and levies property tax on November 1 of each year. The property tax is payable in two installments. The first installment is due December 20 of the same year. The second installment is due May 10 of the subsequent year. The county collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operations.

NOTE 5 - COMPENSATED ABSENCES

Vacation for full time employees is based on years of employment. One week is earned upon completion of the first year of service, two weeks after the second year, and three weeks after ten years of service. Employees are given compensatory time off, in lieu of cash payments, for the overtime worked. Full time employees earn four hours of sick leave for each full month of service cumulative to no more than one hundred and twenty hours. Upon termination an employee will be compensated for any earned but unused sick leave and vacation leave. The amount is disclosed as a part of long-term debt. Amounts paid for compensated absences are paid from the fund that corresponds to the employees duties.

NOTE 6 - COMPARATIVE DATA

The amounts shown for 2010 in the financial statements are included, where practicable, only to provide a basis for comparison with 2011, and are not intended to present all information necessary for a fair presentation in accordance with the cash basis and budget laws of Kansas. Interfund eliminations have not been made in the aggregation of this data.

NOTE 7 - LONG-TERM DEBT

KDHE Loan

In 2001, a new 4-cell sewage facility was constructed at a cost of \$1,152,740. A community development block grant from the Kansas Department of Commerce for \$400,000 was awarded to the city for the project on June 15, 2001. The city expended \$387,836 of grant proceeds. Additional financing of \$764,904 was obtained from the Kansas Department of Health and Environment with a loan agreement executed on May 22, 2001. Semi-annual payments of \$25,842.51 began on March 1, 2003. Beginning September 1, 2008, the payment schedule was revised and the remaining balance due was scheduled to be paid with twenty-nine semi-annual payments of \$25,048.90.

General Obligation Bonds

To finance a water system upgrade, the city issued general obligation bonds on October 12, 2011 in the amount of \$359,000. The United States Department of Agriculture-Rural Development purchased all of these bonds. The bonds carry an interest rate of 3%. Annual redemptions payments are scheduled to begin on October 12, 2012.

City of Alta Vista  
Wabaunsee County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 7 - LONG-TERM DEBT (CONT)

Changes in long term liabilities for the year ended December 31, 2011 were as follows:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Payable January 1</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance Payable December 31</u>	<u>Interest Paid</u>
General Obligation Bonds										
Series 2011A	3.00%	10/12/2011	\$ 359,000	10/12/1951	\$ 0	\$ 359,000	\$ 0	-	\$ 359,000	\$ 0
KDHE loans:										
KDHE Water Pollution Control										
Revolving Fund Revenues	3.08%	4/28/2001	767,904	3/1/2022	<u>499,416</u>	<u>0</u>	<u>34,983</u>	<u>0</u>	<u>464,433</u>	<u>15,115</u>
Total contractual indebtedness					499,416	359,000	34,983		823,433	15,115
Compensated absences					<u>3,164</u>	<u>0</u>	<u>0</u>	<u>1,278</u>	<u>4,442</u>	
Total long-term debt					<u>\$ 502,580</u>	<u>\$ 359,000</u>	<u>\$ 34,983</u>	<u>\$ 1,278</u>	<u>\$ 827,875</u>	<u>\$ 15,115</u>



City of Alta Vista  
Wabaunsee County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 7 - LONG-TERM DEBT (CONT)

Current maturities on long term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017-2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2036</u>	<u>2037-2041</u>	<u>2042-2046</u>	<u>2047-2051</u>	<u>Total</u>
Principal													
General Obligation Bonds													
Series 2011A	\$ 4,000	\$ 4,000	\$ 4,000	\$ 5,000	\$ 5,000	\$ 28,000	\$ 33,000	\$ 38,000	\$ 45,000	\$ 53,000	\$ 64,000	\$ 76,000	\$ 359,000
KDHE loans:													
KDHE Water Pollution Rev Loan	<u>36,069</u>	<u>37,188</u>	<u>38,343</u>	<u>39,533</u>	<u>40,760</u>	<u>223,576</u>	<u>48,964</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>464,433</u>
Total Principal	<u>40,069</u>	<u>41,188</u>	<u>42,343</u>	<u>44,533</u>	<u>45,760</u>	<u>251,576</u>	<u>81,964</u>	<u>38,000</u>	<u>45,000</u>	<u>53,000</u>	<u>64,000</u>	<u>76,000</u>	<u>823,433</u>
Interest													
General Obligation Bonds	10,770	10,650	10,530	10,410	10,260	48,960	44,460	39,210	33,120	25,860	17,310	6,990	268,530
Series 2011A													
KDHE loans:													
KDHE Water Pollution Rev Loan	<u>14,029</u>	<u>12,909</u>	<u>11,755</u>	<u>10,565</u>	<u>9,338</u>	<u>26,911</u>	<u>1,134</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>86,641</u>
Total Interest	<u>24,799</u>	<u>23,559</u>	<u>22,285</u>	<u>20,975</u>	<u>19,598</u>	<u>75,871</u>	<u>45,594</u>	<u>39,210</u>	<u>33,120</u>	<u>25,860</u>	<u>17,310</u>	<u>6,990</u>	<u>355,171</u>
Total Principal and Interest	<u>\$ 64,868</u>	<u>\$ 64,747</u>	<u>\$ 64,628</u>	<u>\$ 65,508</u>	<u>\$ 65,358</u>	<u>\$ 327,447</u>	<u>\$ 127,558</u>	<u>\$ 77,210</u>	<u>\$ 78,120</u>	<u>\$ 78,860</u>	<u>\$ 81,310</u>	<u>\$ 82,990</u>	<u>\$ 1,178,604</u>

City of Alta Vista  
Wabaunsee County, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

NOTE 8 - FUND TRANSFERS

The sewer fund made a transfer to the sewer reserve fund of \$3,000 pursuant to K.S.A. 12-631o. Transfers of \$28,000 and \$190,664 were also made from the gas utility to the sewer utility and water project funds, respectively, pursuant to K.S.A. 12-825d.

NOTE 9 - COMPLIANCE FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the municipality.

Deposits with financial institutions were not adequately secured at all times in accordance with K.S.A. 9-1402. The city is aware of the requirement and will monitor in the future

Management is not aware of any items of noncompliance with Kansas statutes.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan description The City of Alta Vista participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined pension benefit plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding policy K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 was 7.74% with a 1% reduction for April through June. The City of Alta Vista contributions to KPERS for the years ending December 31, 2011, 2010, and 2009, were \$4,108, \$3,959, and \$3,915, respectively, equal to the required contributions for each year.

NOTE 11 - WATER SUPPLY CONTRACT

The City of Alta Vista entered into a contract on July 13, 1992, with the Rural Water District No. 1, Morris County, Kansas, for the purpose of obtaining a source of water for the City. Rural Water District No. 1 is a Kansas entity formed under Kansas Statutes Annotated 82a-612. Per contract, Rural Water District No. 1 constructed a water supply and distribution system. The Rural Water District will deliver to the City potable treated water, meeting applicable quality standards of the Kansas Department of Health and Environment, a maximum daily amount not to exceed 86,000 gallons. On July 15, 1994, the Rural Water District delivered water to the City of Alta Vista. The City has no right of ownership in the fixed assets or interest in the net income or loss of the Rural Water District. The City of Alta Vista's obligation is to pay the Water District a total fixed monthly charge of \$913 and to purchase a minimum of 750,000 gallons of water per month. The rate charged to the city for water is subject to modification at the end of every year.

City of Alta Vista  
Wabaunsee County, Kansas

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 11 - WATER SUPPLY CONTRACT (CONT)

The full faith and credit of the City is not pledged; and the City has no obligation to levy a tax to make any payment pursuant to this contract. However, the City will adjust water rates charged its users at a level sufficient to meet the City's obligations. The City's contract obligation to purchase water from the Rural Water District extends for a term of 40 years from the date of the initial delivery of any water to the City. The contract does not contain a termination clause. In the event of any occurrence rendering the Water District incapable of performing under this contract, any successor of the Water District, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Water District.

During 2011, the City purchased 12,054,000 gallons of water from the Rural Water District for \$32,070; which includes the fixed charge of \$913 per month for twelve months. This amount has been considered to be a commodity expenditure of the Utility fund in 2011.

No provision has been made in the financial statements for the amount remaining to be paid to the Rural Water District over the life of the contract for the water to be purchased by the City.

The City's obligation will continue in effect until July 15, 2034.

NOTE 12 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Commercial insurance is purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

NOTE 13 – SALE OF GAS UTILITY

On April 7, 2009, the citizens of Alta Vista approved the sale of the gas utility system to Kansas Gas Service. After receiving approval from the Kansas Corporation Commission, the city entered into a contract to sell the system for \$420,000 effective June 1, 2009. The city retained unpaid accounts receivable for services prior to that date. The city has no other obligation in regard to the gas utility other than retained liabilities arising out of, or related to, the city's ownership of assets and/or the operation of the gas utility.

NOTE 14 – WATER PROJECT

The City applied for loan and grant funds to fund a water/street project with the estimated cost of \$859,000. On July 26, 2010, the City was notified that it had been approved for an USDA Rural Development loan in the amount of \$359,000. On August 4, 2010, the City was notified that it had received a \$500,000 Small Cities Community Development Block Grant. The city agreed to provide at least \$20,000 from its own funds. The estimated project cost is \$913,171. As of December 31, 2011, \$790,805 had been expended for the project from the city general, water funds, and water project funds. The project is expected to be completed by November 2012.

City of Alta Vista  
Wabaunsee County, Kansas

Schedule of Expenditures of Federal Awards  
For the year ended December 31, 2011

Federal Grantor/Pass-through Grantor Program or Cluster Title	CFDA Number	Federal Expenditures
United States Department of Housing and Urban Development Community Development Block Grants	14.228	\$ 377,633
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	<u>353,372</u>
Total Federal Expenditures		<u>\$ 731,005</u>

See accompanying notes to schedule of expenditures of Federal Awards.

City of Alta Vista  
Wabaunsee County, Kansas

Notes to the Schedule of Expenditures of Federal Awards  
For the year ended December 31, 2011

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Alta Vista, Kansas under programs of the federal government for the year ended December 31, 2011. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City of Alta Vista, Kansas, it is not intended to and does not present the cash receipts, cash disbursements and unencumbered cash of the City of Alta Vista, Kansas.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the statutory basis of accounting, which demonstrates compliance with the cash basis and budget laws of the State of Kansas. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant and loan portion of the programs costs. Entire program costs, including the City of Alta Vista's portion may be more than shown. City records should be consulted to determine amounts expended or matched from non-federal sources.

## CERTIFIED PUBLIC ACCOUNTANTS

620-767-6653  
1-800-361-6545  
FAX 620-767-8149

### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mayor and City Council  
Alta Vista, Kansas 66834

We have audited the statutory basis financial statements of the City of Alta Vista, Kansas, as of and for the year ended December 31, 2011, which collectively comprise the City of Alta Vista, Kansas' financial statements and have issued our report thereon dated August 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

Management of the city of Alta Vista, Kansas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Alta Vista's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Alta Vista's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Alta Vista's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, and material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2011-1 and 2011-2 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs as 2011-3 to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Alta Vista's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Alta Vista, Kansas, in a separate letter dated August 30, 2012.

The City of Alta Vista, Kansas' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Alta Vista's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City of Alta Vista council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Aldrich & Company, LLC*

Aldrich & Company LLC  
Certified Public Accountants  
Council Grove, Kansas  
August 30, 2012

---

## CERTIFIED PUBLIC ACCOUNTANTS

620-767-6653  
1-800-361-6545  
FAX 620-767-8149

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and City Council  
City of Alta Vista, Kansas 66834

#### Compliance

We have audited the compliance of the City of Alta Vista, Kansas, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Alta Vista's major federal programs for the year ended December 31, 2011. The City of Alta Vista's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Alta Vista's management. Our responsibility is to express an opinion on the City of Alta Vista's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Alta Vista's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Alta Vista's compliance with those requirements.

In our opinion, the City of Alta Vista, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

#### Internal Control Over Compliance

Management of the City of Alta Vista, Kansas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Alta Vista's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Alta Vista's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-3 to be a significant deficiency.

The City of Alta Vista's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Alta Vista's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Alta Vista City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Aldrich Company, LLC*

Aldrich & Company LLC  
Council Grove, Kansas  
August 30, 2012



Schedule of Findings and Questioned Costs  
City of Alta Vista, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2011

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Alta Vista, Kansas, on the statutory basis of accounting.
2. Three significant deficiencies were disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Two were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Alta Vista were disclosed during the audit.
4. Three significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. Two were reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for the City of Alta Vista, Kansas expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as a major program included: Community Development Block Grant/State's Program CFDA 14.228, and Water and Waste Disposal Systems 10.760.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Alta Vista, Kansas, was not determined to be a low-risk auditee.

FINDINGS—FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2011-1 Inadequate segregation of duties

*Condition:* There are not a sufficient amount of employees in which to perform duties. The city clerk is responsible for most recordkeeping activities. However, the city did hire a professional grant administrator for the CDBG portion of the water project.

*Criteria:* Internal controls should be in place to monitor the duties of the clerk.

*Cause:* The city is extremely small and only employs one clerk for all record keeping duties.

*Effect:* Because of the lack of personnel, the city clerk could stop performing her duties and the problem may not be timely detected.

*Recommendation:* Procedures should be implemented that require council and mayor involvement in overseeing these assigned duties.

*City response:* The mayor and council will more closely monitor duties performed by the clerk.

2011-2 Signing of blank checks

*Condition:* The mayor and treasurer occasionally sign blank checks to allow the city clerk to pay certain bills between monthly meetings.

*Criteria:* Internal controls should be in place, to sign checks only when properly filled in.

*Cause:* Bills are received and become due between council meetings. The city would incur late fees if the clerk were to hold them until the subsequent council meeting. The mayor and treasurer position are not full-time positions, and require only a couple of hours each month. Due to their limited time availability, blank checks are signed.

*Effect:* The city clerk could fill in any vendor or amount and negotiate the check without anyone within the city realizing this occurred.

*Recommendation:* Procedures should be implemented to never sign blank checks. Kansas statutes allow the prepayment of certain bills in circumstances such as these, but signatures should be obtained after the bill is received and the check is properly filled in.

*City response:* We will sign checks only when properly filled in.

## SIGNIFICANT DEFICIENCIES

### 2011-3 Drafting of financial statements

*Condition:* The city did not draft their financial statements. The audit firm drafted for city approval.

*Criteria:* Internal controls should be in place, for city personnel to prepare financial statements or be able to take responsibility for them.

*Cause:* The City is very small with few administrative personnel. These personnel prepare the trial balance but do not prepare a full set of financial statements.

*Effect:* Information may not be relayed to the preparer of the financial statements, and therefore, omitted.

*Recommendation:* Procedures should be implemented to ensure that city personnel evaluating the preparation services are able to understand the preparation and to take responsibility for the preparation of the financial statements.

*City response:* We do prepare our trial balances. However, due to limited availability of staff, we do not prepare a full set of statements. The Kansas statutory basis of accounting is relatively simple, and we feel that it is more cost effective for our staff to continue to evaluate the financial statement preparation services.

## FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Community Development Block Grant/State's Program CFDA 14.228

*Material Weaknesses & Significant Deficiencies.* The material weakness and significant deficiencies at findings 2011-1 through 2011-3 also apply to this grant.

Water and Waste Disposal Systems for Rural Communities-CFDA No. 10.760

*Material Weaknesses & Significant Deficiencies.* The material weakness and significant deficiencies at findings 2011-1 through 2011-3 also apply to this loan.